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EXCISE

MEMORANDUM OF CONVERSATION

February 4, 1957

SUBJECT: Economic Discussions with Saudi Arabian Delegation

PARTICIPANTS:

U.S. Team:

1. Robert Murphy, Deputy Under Secretary
2. Ambassador George Wadsworth
3. Robert G. Barnes, Special Assistant to the Under Secretary for Mutual Security Affairs
4. Jack C. Corbett, Director, Office of International Financial and Development Affairs
5. Cedric Seager, Regional Director, Office of Near East and South Asia Operations, International Cooperation Admin.
6. L. Wade Latham, Political-Economic Adviser, Bureau of Near Eastern, South Asian and African Affairs
7. Merrill C. Gay, Adviser, Office of International Financial and Development Affairs
8. John Shaw, Officer-in-Charge Economic Affairs, Office of Near Eastern Affairs
9. Vance Brand, Member of Board of Directors, Export-Import Bank
10. William Welk, Economist, Export-Import Bank

Saudi Team:

1. His Excellency Shaykh Muhammad Surur, Royal Counselor and Minister of Finance and National Economy
2. His Excellency Shaykh 'Abdullah al-Khayyal, Saudi Arabian Ambassador to the U.S.
3. Rasim al-Khalidi, Vice President, Saudi Arabian Monetary Agency

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After the amenities, Mr. Murphy observed that a prosperous Saudi Arabia will contribute to peace and stability in the Middle East which obviously is to our mutual interest. He referred to the President's request of Congress to announce a policy of cooperation with the Middle East looking toward this objective and combatting our greatest threat, the spread of international communism. Referring to His Majesty's expressed desire for assistance on certain projects which would contribute to Saudi Arabian development, Mr. Murphy hoped we could discuss these measures and how to move forward.

Mr. Murphy hoped and believed that the current decline in Saudi Arabian revenues would soon be eradicated as a result of the progress toward

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reopening of the canal. He noted that Saudi Arabia had not yet joined the World Bank or the International Monetary Fund and hoped the Saudi Government is now considering such membership. The United States was prepared to discuss ways and means to help Saudi Arabia with the technical and engineering surveys necessary in connection with projects desired. He suggested that the Ministers elaborate on the Saudi Arabian objectives, after which we could discuss ways and means of achieving these objectives. He wanted to know what development or projects were of particular interest, how the United States could best assist in the technical planning and what resources are available to be utilized.

The Minister of Finance, after commenting favorably on the introductory remarks, referred to talks with Mr. Black of the World Bank last year, which had now led to the Saudi Arabian Government's decision to join the Bank and Fund. He then undertook to explain the economic development of his country and to present related information which he felt important for these discussions, distributing a memorandum in this connection. He noted that the Saudi income before the crisis was at a level of \$350 million, one-third of which was allocated for the regular Army of three divisions, another third for government operations, security and police and the other third for projects.

He stated that the revenue would be off this year, assuming the canal opened on March 13, about \$90 million, roughly one-third of the revenue from oil (our estimate is about \$50 million covering six months closure of the canal) and that the only other source of revenue is the income tax and custom duties, both of which currently yield small returns. He said the Saudi Government had accumulated debts during the past year.

In response to Mr. Murphy's interest in the debt situation, he indicated the total debt was about \$200 million; about \$6 million is the balance of the EximBank loan, some is the remaining obligation to pay Aramco for building the railroad to Riyadh, the remainder, presumably the bulk, is internal debt. The Minister, aided by Mr. Al-Khalidi, explained the Saudi practice of borrowing from banks in anticipation of oil revenue, recognizing that these loans were in the nature of overdrafts. The same type of quasi-debt is created in connection with advances of goods by Saudi merchants. About \$90 million of the current debt was due to the Suez crisis.

The Minister then referred to His Majesty's memorandum to the President in which there was a request for economic assistance to Saudi Arabia. Mr. Murphy said this request had led him to wonder about the Saudi Government policy in respect of loans. He felt that Saudi revenues would soon be back to normal, providing a firm basis for government borrowing. Referring to the Saudi Government's traditional attitude toward loans, he observed that the United States had leaned heavily on loans during much of the period of its economic development. Loans from Europe were prerequisite to our success e.g., in financing our railroads. He would appreciate a frank discussion of the Saudi attitude on this matter.

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Mr. Murphy said we would welcome additional information including the Saudi Government's plans regarding the projects listed, suggesting in particular the Damman Harbor, the Medina Railroad and the broadcasting projects. The Minister proceeded to discuss in some detail the needs of Damman Harbor. He alleged that delays in unloading were so great that some companies refuse to use the port. The increase in the cost of commodities is such that frequently it is cheaper to carry goods across the desert. They wish to enlarge the port sufficiently to service three vessels concurrently. At present many ships go to Bahrein at considerable cost to the Saudi economy. (Aramco's report on the harbor was suggested for study.) It is estimated that it would

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cost from \$5 to \$10 million to enlarge the port and \$20 million would cover the port, plus the road from Damman to Riyadh. Mr. Murphy felt this to be a revenue producing project and inquired how the Saudi Arabians proposed to finance it. 1

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